

**Management Advisory Report: The Internal
Revenue Service Provided High Quality
Service to Taxpayers Calling the Toll-Free
Line for Tax Forms**

July 2002

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

July 24, 2002

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

A handwritten signature in cursive script, reading "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Management Advisory Report – The Internal Revenue Service Provided High Quality Service to Taxpayers Calling the Toll-Free Line for Tax Forms (Review # 200130040)

This management advisory report presents the results of our review to determine the effectiveness of the service provided to customers who call the Internal Revenue Service's (IRS) toll-free telephone system to order tax forms. We initiated this review as part of our continuing audit coverage of the various toll-free product lines since, for the past several years, the Congress and other stakeholders have raised concerns about taxpayer access to the IRS' toll-free telephone system.

In summary, we found that the IRS provided high quality service to customers calling the toll-free line for tax forms. During the past two fiscal years, the IRS' quality measurement system shows that the accuracy rate in taking the phone orders for tax forms at the Area Distribution Centers (ADCs) exceeded 98 percent. Although the percentage of callers who are able to get through has been declining, the level of service provided to customers on the tax forms line still exceeds the level of service provided to customers who call the IRS' other toll-free lines for tax law questions, refund inquiries, and account issues.

The future operations of the ADCs are likely to change because of two emerging issues. First, the IRS has selected certain ADC activities as commercial activities to analyze for competitive sourcing. While the toll-free telephone operations within the ADCs will not be included in the competitive sourcing analysis, there still could be an impact on the toll-free operations. The IRS does not expect to know before mid-2003 whether it will continue to operate the selected ADC activities or whether a contractor will perform the work. Second, the IRS plans to realign the toll-free line for tax forms within the Wage and Investment Division. Currently, the toll-free tax forms line is managed by the Multimedia Publishing function of the Customer Assistance, Relationships and

Education function. The realignment would place toll-free tax forms under the Customer Account Services (CAS) function, on the same call routing platform with the other main customer service toll-free operations. A team has been selected to develop the transition and implementation plans, and the realignment is expected to occur in either Fiscal Year 2003 or 2004. We were advised that both the outcome of the competitive sourcing and the completion of the internal transition plans are needed to determine if the toll-free operations will physically remain within the current ADC facilities.

Once the transition of the tax forms line to the CAS function has been completed, we believe that the use of state-of-the-art voice recognition technology could enable the tax forms ordering process to operate more efficiently and provide top quality service to more customers. Voice recognition is a rapidly emerging "self-serve" technology that is being increasingly used in private sector call centers. It has the potential to successfully enhance customer service while reducing personnel costs.

Management's Response: Since this management advisory report contains no formal recommendations, we did not require a formal response from the IRS. However, in reaction to the draft report, the IRS commented that it continues to seek ways to minimize the taxpayer's burden and improve overall service and that it will research the possible use of speech recognition technology to order tax forms.

Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers who are affected by the report. Please contact me at (202) 622-6510 if you have questions, or Gordon C. Milbourn III, Assistant Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Background

One of the primary forms of communication between the Internal Revenue Service (IRS) and the public are tax instructions, publications and forms. Taxpayers use these instructions and publications to assist in the preparation and submission of their tax forms. The IRS has developed a network of programs and systems to make these tax products readily available to the public. In addition to the IRS' annual tax package¹ mailings to many taxpayers, tax products can be obtained from IRS walk-in sites, banks, libraries, post offices, and tax professionals. Tax products can also be ordered from the IRS via the Internet, by fax, or by calling its toll-free telephone system.

An average of about 9.6 million calls per year² are placed to the IRS' toll-free line for tax forms (1-800-TAX-FORM). Incoming calls on this line are answered by Order Entry Clerks (OECs) at three Area Distribution Centers (ADCs) located in the eastern, central, and western parts of the country. The ADCs are responsible for receiving the orders, shipping the forms, and controlling the inventory of forms in warehouses. The OECs input the requests into the Centralized Inventory Distribution System (CIDS),³ and the requests are filled (generally within 72 hours) by Order Fulfillment Clerks at one of the ADCs. The OECs at the ADCs also receive internal orders for tax forms from other IRS functions and specialty programs such as the Bank, Post Office, and Library (BPOL) Program.

The telephone operations for the tax forms line are managed by the Multimedia Publishing function of the Customer Assistance, Relationships and Education function of the IRS' Wage and Investment (W&I) Division. During FY 2001, approximately 564 Full-Time Equivalents (FTE)⁴

¹ Booklets mailed to individuals and businesses that contain tax forms and instructions, along with some general guidelines.

² Based on total calls attempted in Fiscal Years (FY) 1998, 1999, 2000, and 2001.

³ The CIDS is a centralized computer system that is used to support the distribution of products within the IRS. This includes, but is not limited to, tax forms, tax instructions, and tax publications.

⁴ An FTE is a measure of labor hours. One FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For FY 2002, one FTE was equal to 2,088 staff hours.

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were used to operate the ADCs at a cost of more than \$18 million in salaries and benefits. Of these FTEs, about 109 were used to answer the toll-free line in FY 2001. During the same year, the IRS' telecommunications cost for the tax forms line was approximately \$530,000.

We initiated this review as part of our continuing audit coverage of the various toll-free product lines since, for the past several years, the Congress and other stakeholders have raised concerns about taxpayer access to the IRS' toll-free telephone system. In this review, we analyzed various IRS measures of the ADCs' performance and evaluated the various processes used to manage the ADC telephone operations. This review was performed between November 2001 and April 2002 at the Multimedia Publishing offices in Washington, D.C., and at the ADCs located in Bloomington, Illinois, and Richmond, Virginia.

The review was performed in accordance with the President's Council on Integrity and Efficiency's *Quality Standards for Inspections*. Detailed information on our review objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Taxpayers Are Being Provided High Quality Service on the Tax Forms Line Although Access Is Declining

The IRS is providing high quality service to taxpayers who call the toll-free line for tax forms. During both FY 2001 and FY 2002,⁵ the IRS' quality measurement system shows that the ADCs achieved an accuracy rate of more than 98 percent⁶ in taking telephone orders for tax forms from taxpayers.

As shown in Table 1, however, the Level of Access (LOA)⁷ and the Level of Service (LOS)⁸ provided on the tax forms line, particularly in the past two years, have declined from the performance achieved in prior years.

⁵ Data compiled through April 20, 2002 of FY 2002.

⁶ We reviewed the IRS' quality review procedures and reports, but performed no testing to independently evaluate the validity of the IRS-measured accuracy rate.

⁷ The LOA is computed by dividing the total number of calls attempted, less busy signals, by the total number of calls attempted.

⁸ The LOS is computed by dividing the number of calls answered by the number of calls attempted.

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Table 1: Comparison of Level of Access and Level of Service Provided on the Tax Forms Line – FY 1998 through FY 2002⁹

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
LOA	89.5%	88.7%	86.1%	80.6%	76.9%
LOS	80.9%	79.3%	75.3%	69.7%	66.6%

Source: IRS Media and Publications function.

The tax forms line was used to answer tax rebate questions during FY 2001

The significant decline in both LOA and LOS in FY 2001 was largely attributable to the increased call demand that resulted from the passage of the Economic Growth and Tax Relief Reconciliation Act of 2001.¹⁰ As a result of this new law, the IRS issued approximately 112 million tax rebate notices and checks to taxpayers in 2001. The ADCs assisted the IRS' Customer Account Services (CAS) function in answering about 600,000 calls from taxpayers concerning the tax rebates. As a result of this increased call demand, the number of callers to the tax forms line that received busy signals significantly increased from the prior year, driving down both the LOA and LOS measures.

Nevertheless, taxpayers who called the tax forms line during FY 2001 were more likely to receive service than those taxpayers who called other IRS toll-free lines. During FY 2001, taxpayers attempted nearly 9.3 million calls to the IRS' toll-free line for tax forms. This represented almost 10 percent of all call attempts to the IRS' toll-free enterprise. The ADCs provided a LOS of about 70 percent on the tax forms line by answering more than 6.5 million of these calls. These included 4.8 million calls that were answered by live assistants and another 1.7 million calls that were answered by automated services.¹¹ Although the

⁹ Data compiled through April 20, 2002 of FY 2002.

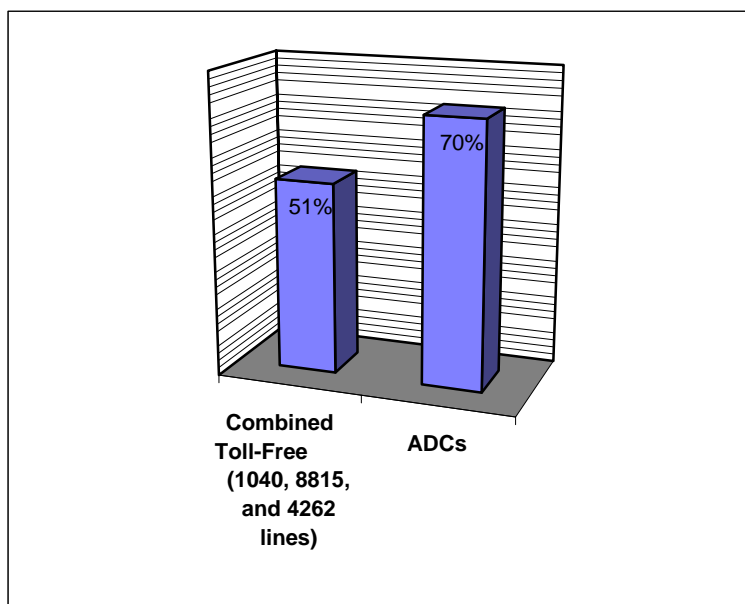
¹⁰ Pub. L. No. 107-16, 115 Stat. 38.

¹¹ Automated services include recorded information on how to download forms and publications from the Internet or how to obtain forms by fax, and recorded information on the telephone numbers to call for tax-related questions or refund inquiries.

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FY 2001 LOS goal of 75 percent for the tax forms line was not achieved, the LOS provided to taxpayers on this toll-free line was, as shown in Figure 1, 19 percent higher than the combined LOS provided by the IRS' three primary toll-free lines for tax law inquiries (1-800-829-1040), refund inquiries (1-800-808-4262), and notices, letters and bills (1-800-829-8815).

Figure 1. Comparison of Level of Service Provided by the ADCs and Other IRS Toll-Free Product Lines (FY 2001)¹²



Source: IRS Snapshot Report for Week Ending September 30, 2001.

Staffing for the tax forms line was reduced for FY 2002

The number of FTEs allocated for order entry activities, which includes answering calls on the tax forms line, was reduced from 86¹³ in FY 2001 to 75 in FY 2002. In turn, the IRS reduced its level of service goal for the tax forms line to 67 percent for FY 2002. The IRS also changed its FY 2002 measure to Customer Service Representative Level of Service (CSR LOS) for the tax forms line, as well as the

¹² The IRS Snapshot Reports do not provide individual LOS figures for the 1040, 8815, and 4262 lines.

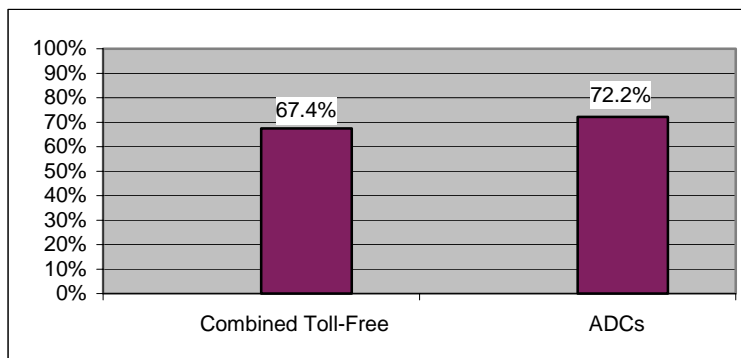
¹³ The 86 FTEs allocated for the tax forms line in FY 2001 do not include the additional FTEs utilized to answer tax rebate questions.

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other toll-free product lines. This new measure is intended to represent the percentage of callers who wanted to speak to an assistor that were successful in getting through to an assistor.

Through April 20, 2002, the toll-free line for tax forms had achieved a CSR LOS of more than 72 percent. As shown in Figure 2, the CSR LOS achieved on the tax forms line was nearly five percent higher than the CSR LOS achieved by the IRS' three primary customer service toll-free lines.

Figure 2. Comparison of CSR LOS Provided by the ADCs and Other IRS Toll-Free Product Lines¹⁴ (FY 2002 through April 20)



Source: IRS Snapshot Report for Week Ending April 20, 2002.

The costs of the telephone operations at the ADCs are significantly below the call center industry

Considering only salaries, benefits, and telecommunications costs, the average cost per assistor-answered call was less than \$1 during FY 2001.¹⁵ While the average cost per call can vary dramatically by industry, it averages about \$4 per contact across all call center industries.¹⁶

¹⁴ In addition to the 1040, 8815, and 4262 lines, the “combined toll-free” data on the FY 2002 Snapshot Report includes a special toll-free line for disaster victims of the September 11, 2001, terrorist attacks.

¹⁵ Based on \$530,194 in telecommunications costs; \$3,545,874 in estimated salary and benefit costs for 109 FTEs; and 4,844,642 assistor answered calls.

¹⁶ Jon Anton, *Call Center Management by the Numbers* (West Lafayette: Purdue University Press, 1997), 20.

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**Two Emerging Issues Will Affect
the Future Operation of the Toll-
Free Line for Tax Forms**

At the time we completed our review, two emerging issues were facing the ADCs that will have an unknown impact on the toll-free line for tax forms. The first issue is the potential contracting out of certain ADC activities. The second is the impending realignment of the ADC telephone operations to the W&I Division's CAS function.

The IRS will compete selected ADC operations with the private sector

Competitive sourcing is an acquisition process that compares private sector and government costs for a particular function or activity to determine the most cost-effective way for the government to buy those services. The President has identified competitive sourcing as one of five management objectives for his administration.¹⁷ As a result, all federal agencies are required to compete 5 percent of their commercial activities during FY 2002, and an additional 10 percent by the end of FY 2003.

To comply with the President's goals, the IRS performed a Competitive Sourcing Feasibility Study and decided to have certain ADC activities compete with private sector contractors. Through this competition, the IRS will analyze the workload and build an in-house "most efficient organization" which will eventually be competed with the private sector.

The IRS considers the ADC telephone operations that support the toll-free line for tax forms to be outside the scope of the competitive sourcing process and will not include them in the Performance Work Statement that will be subject to competitive bidding. However, there still could be an impact on the toll-free operations. The IRS does not expect a determination before mid-2003 whether it will continue to operate the ADCs as it does now or whether a contractor will perform some of the work.

¹⁷ *The President's Management Agenda: FY 2002*, Office of Management and Budget, S/N 041-001-00568-4.

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The IRS plans to move the tax forms line to a new call routing platform

At the time we completed our review, the IRS also had long range plans to realign the ADC telephone policy and operations into the W&I Division's CAS organization. A team has been selected to develop transition and implementation plans for the realignment. The realignment is anticipated to occur in either FY 2003 or FY 2004.

The realignment of the toll-free line for tax forms may improve the level of service to taxpayers because it will place the line on a different call router. Currently, calls are routed to each ADC based on a call percentage allocation. The Eastern and Central ADCs each receive 40 percent of the calls and the Western ADC receives 20 percent of the calls. After the realignment, calls will be routed using the same call router platform currently used by many other toll-free lines in the IRS toll-free enterprise. This will allow calls to be routed to the next available OEC, rather than allocating a percentage of the calls to each ADC.

We were advised that both the outcome of the competitive sourcing process and the completion of the internal transition plans to move the tax forms line to the CAS function are needed before a decision can be made on whether the toll-free operations will physically remain in the current ADC facilities. We were also advised that it was uncertain whether the ADC toll-free operations that support internal IRS customers and specialty programs, such as the BPOL, will also transition to the CAS function.

Several years ago, IRS management performed a study to determine the feasibility of further automating the toll-free line for tax forms. At that time, management decided it would be too complicated to provide all of the needed menu programming, and that it would lengthen the time customers spend on the telephone line, thereby increasing costs.

However, technological improvements in recent years suggest that the W&I Division should explore the feasibility of modernizing the operations with state-of-the-art speech recognition technology to allow callers to place orders for tax forms without speaking to an IRS employee. This

**Speech Recognition Technology
Could Help to Efficiently Serve
More Customers**

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enhancement would further improve the IRS' ability to handle call volume during peak time periods and could also significantly reduce costs for the IRS.

In an article published in the March 2002 issue of *Call Center Management Review*,¹⁸ speech recognition technology is said to be receiving high marks from consumers. It is an emerging "self-serve" technology that has the potential to enhance customer service while reducing personnel costs. The May 2002 issue of *Call Center Management Review*¹⁹ states that, "Dismissed as unreliable a decade ago, speech technology is now a viable and customer-friendly solution to help absorb heavy call volume."

In addition, another periodical²⁰ used the following example to demonstrate the effectiveness of the speech recognition technology now available. A leading investment company expanded its use of speech technology to:

- Enable its clients to use their voices to get real-time stock and mutual fund quotes, account balances and holdings.
- Place orders for more than 16,000 stocks and options and more than 5,500 mutual funds.
- Request order and account activity.
- Create a personalized quote list.

Once the transition of the tax forms line to the CAS function has been completed, we believe that the use of state-of-the-art speech recognition technology could potentially enable the tax forms ordering process to operate more efficiently and provide top quality service to more customers.

¹⁸ Paul Kowal, "Speech Recognition Evolving into a Preferred Self-Service Option," *Call Center Management Review* (March 2002): 7-8.

¹⁹ Marcia Hicks, "Tips for Handling Call Volume During Peak Times," *Call Center Management Review* (May 2002): 9-10.

²⁰ Mary E. Thyfault, "Voice Gets Reliable: Speech Recognition Technology Takes Hold in Customer Service," *Informationweek.com*, (February 22, 1999), at <http://www.informationweek.com/722/voice.htm>.

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Management's Response: Since this management advisory report contains no recommendations, we did not require a formal response from the IRS. However, in reaction to the draft report, the IRS commented that it continues to seek ways to minimize the taxpayer's burden and improve overall service and that it will research the possible use of speech recognition technology to order tax forms.

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the effectiveness of the service provided to customers who call the Internal Revenue Service's (IRS) toll-free telephone system to order tax forms.

To accomplish our objective, we:

- I. Reviewed call center management practices at the Area Distribution Centers (ADC) and evaluated whether incoming calls were handled in a manner that promoted optimum service to taxpayers while ensuring productive use of available resources.
 - A. Performed a walk-through at two of the three ADCs, observed incoming call center processes and practices, and evaluated the ability of call center management to monitor and react to real-time developments.
 - B. Interviewed management and systems analysts to determine how calls are routed to the three ADCs and to individual Order Entry Clerks (OEC).
 - C. Evaluated the factors used by management for determining how many trunks¹ are needed to effectively handle telephone call load.
 - D. Evaluated the effectiveness of the Voice Response Unit /Automatic Call Distributor configuration.
 - E. Explored the potential causes for the declining percentage of calls answered by automation.
 - F. Determined how level of service objectives and other efficiency goals (e.g., average handle time, after-call time, cost per call, etc.) were set and measured by management.
 - G. Determined whether response time (e.g., elapsed time from the taxpayer's telephone call to the mailing of the requested forms) objectives or goals had been established and were being met.
 - H. Evaluated the process for requesting and budgeting resources for the ADCs and determined how the resulting allocated funding affects the setting of performance objectives and the delivery of services to taxpayers.

¹ A telephone circuit linking two switching systems.

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- I. Evaluated the information and processes used by management in forecasting call demand, calculating resource needs, establishing assistor groups by skill set, scheduling resources, and ensuring adherence to schedule.
- J. Evaluated the processes that call center management used to allocate Full-Time Equivalents (FTE)² among permanent, seasonal, and temporary employees.
- K. Interviewed management to determine the extent of other duties performed by OECs and how it affected their availability to handle incoming calls.
- L. Interviewed management to determine the nature and extent of training given to the OECs answering the toll-free tax forms line.
- M. Determined how quality standards were set and evaluated the processes for measuring the quality of services provided to taxpayers on the tax forms line.
- N. Determined the effectiveness of processes used for measuring customer satisfaction.
- II. Obtained and evaluated information about ongoing initiatives and future actions planned to improve the service provided to taxpayers by the tax forms line.
 - A. Obtained and evaluated plans to modernize the ADC operations.
 - B. Determined the scope and status of the business case analysis on competitive sourcing of the ADCs.
 - C. Determined the status of plans to realign the tax forms line under the Wage and Investment Division's Customer Account Services function and the Integrated Call Router platform.

² An FTE is a measure of labor hours. One FTE is equal to eight hours multiplied by the number of compensable days in a particular fiscal year. For FY 2002, one FTE was equal to 2,088 staff hours.

Major Contributors to This Report

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Appendix III

Report Distribution List

Commissioner N:C
Deputy Commissioner, Wage and Investment Division W
Director, Customer Assistance, Relationships and Education, Wage and Investment Division
W:CAR
Director, Media and Publications, Wage and Investment Division W:CAR:MP
Director, Multimedia Publishing, Wage and Investment Division W:CAR:MP:M
Chief Counsel CC
National Taxpayer Advocate TA
Director, Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O
Office of Management Controls N:CFO:F:M
Audit Liaisons:
Commissioner, Wage and Investment Division W
Director, Customer Assistance, Relationships and Education, Wage and Investment
Division W:CAR

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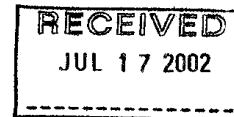
Appendix IV

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

July 11, 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM:

John M. Dalrymple
John M. Dalrymple
Commissioner, Wage and Investment Division

SUBJECT:

Draft Management Advisory Report – The Internal
Revenue Service Provided High Quality Service to Taxpayers
Calling the Toll-Free Line for Tax Forms (Review # 200130040)

I am writing to comment about the above report even though your audit made no recommendations. Providing high quality service to customers calling the toll-free line for tax forms is extremely challenging, and we are very pleased that you found we met this goal. Although this operation represents only 10 percent of our telephone assistance operations, it is an essential part of our full-range telephone service for our customers. Despite annual reductions in employees at the Area Distribution Centers (ADC), we achieved over 98 percent accuracy in phone orders for tax forms during the past two fiscal years. The ADC staff reductions and the Economic Growth Tax Reform and Reconciliation Act of 2001 directly affected the decrease in Level of Access and Level of Service percentages in your report.

We continue to seek ways to minimize the taxpayer's burden and improve overall service, for example, adding speech recognition technology, which your report noted as a possibility. Although we cannot yet determine cost benefits to our operation, we are exploring recent advances in this technology. The Contact Technology Assessment Group (CTAG), created by the Wage and Investment, Customer Account Services Joint Operation Center, is responsible for identifying and assessing new technology. The CTAG and Multimedia Publishing employees recently discussed the possible use of speech recognition to order forms. The CTAG group and our Multimedia Publishing participants are optimistic about the application; however, they agree we need to conduct additional research.

If you have any questions or want to discuss the report, please call me at (202) 622-6860 or Gwen Krauss, Acting Director, Media and Publications, at (202) 622-2875.